



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PQA 720.7.A.422

March 10, 2003
03-PQA-023 (R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Completing and Archiving Electronic Audit Working Papers

Summary

Effective immediately for all in-process and future audits, FAOs must ensure that all working papers (WPs) and WP assignment files are complete at time of report issuance. Two exceptions to the completion policy are:

- (1) the administrative WPs generated in finalizing/closing the assignment file (e.g., report transmission confirmations, scanned report signature pages, and DMIS updates), and
- (2) any non-critical audit WPs (further defined below) not fully complete or fully incorporated into the assignment file at the time the report has to be issued in order to meet a contracting officer's firmly established due date for the audit report.

In addition, all of the WP *saving, archiving, and filing* effort (further described below) should be completed as soon as possible after report issuance and, except for the very unusual situations, no later than **ten working days** after report issuance.

Background

DCAA policy on WP completion, based on the GAGAS, generally provides that:

- the WPs should contain sufficient information to enable an experienced reviewer, who has had no previous connection with the audit, to ascertain from the WPs the evidence that supports the auditor's significant conclusions and judgments (CAM 2-305a);
- the WP documentation of the evidence that supports the auditors' conclusions and judgments needs to be *complete* at the time of report issuance (CAM 2-305a); and
- after report issuance, the *completed* WP documentation may need to be revised or supplemented when certain conditions arise AND the effort serves a useful purpose (CAM 4-409).

DCAA policy on saving, archiving, and storing the Agency's electronic (*APPS*) working papers is presented in CAM 4-407. The policy generally calls for the completed *APPS* WPs to be (1) officially saved on a single-session CD in *read only* and *.exe* format, and (2) archived/backed up on a second single session CD. DCAA audit guidance (e.g., MRD 02-OTS-061, dated October 22, 2002) addressing FAOs' use of *iRIMS* database software for permanently filing *APPS* WPs has also been issued for subsequent incorporation into CAM 4-407.

Guidance for the Completion of Audit Working Papers

Except for the administrative effort generally associated with finalizing/closing an FAO's audit assignment file (e.g., report transmission confirmations, scanned report signature pages, and DMIS updates), the work on any given DCAA audit and audit assignment working papers should be complete at time of report issuance. This includes the documentation of the final supervisory auditor (S/A) review and approval and any S/A-directed supplemental work impacting the conclusions and judgments.

For every audit, there are also certain critical WPs – i.e., those impacting the sufficiency of the documented audit evidence that support the auditor's significant conclusions and judgments – that **MUST ALWAYS BE** complete at time of report issuance. Again, this includes the documentation of the S/A's final review and approval and any S/A-directed supplemental work impacting the conclusions and judgments.

On the other hand, DCAA recognizes that not all WPs are critical and that when **BOTH** of the limited conditions below apply, it is appropriate for an FAO to issue its report before completing its non-critical WPs. The conditions are:

- (1) the incomplete elements of the non-critical WPs do not impact the sufficiency of the documented audit evidence that support the auditor's significant conclusions and judgments, AND
- (2) the timeliness of an audit report is critically important to a DCAA customer (and clearly documented as such in the working papers).

Two case examples illustrating the above conditions are presented in the Enclosure to this memorandum. When both conditions exist, the audit team should issue its audit report and complete any remaining non-critical WP documentation, as soon as it is practical and prudent to do so. In no case should the auditor issue an audit report when incomplete elements of the WPs **ARE** significant to the audit evidence **OR** the contracting officer/requestor does not have a clear immediate need for the audit report. The need to meet some internal metric is **NOT** a valid reason for issuing a report on an audit with incomplete WP documentation.

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A third case, also presented in the Enclosure, exemplifies another, more common situation where:

- (1) the auditor receives an electronic document (like a *PNM*) or develops a new electronic document (like a *Cumulative Allowable Cost Worksheet*) that is directly associated with a previously completed and saved audit WP file, and
- (2) it is prudent and practical for the auditor to file the document(s) with the previously completed electronic WP file.

In this situation, the auditor is prohibited from re-opening and adding the *PNM/Worksheet* type documents to the original WPs saved as *Read Only.exe*. The auditor, however, can incorporate such documents into a newly created and appropriately labeled *Microsoft Explorer* folder which can then be stored on (1) new single-session CDs for the hard copy file (if any) and back-up APPS file and/or (2) in the associated assignment file set up by FAOs using the *iRIMS* database software.

Guidance on Timing for Saving, Archiving, & Storing APPS Working Papers

As noted in the Background above, DCAA policy calls for the completed *APPS* working papers to be (i) officially saved on a single-session CD in *read only* and *.exe* format, (ii) archived/backed up on a second single-session CD, and/or (iii) permanently filed in the FAO's *iRIMS* database, as the *iRIMS* database software is deployed throughout the Agency. All of this *saving, archiving, and filing* effort should be completed as soon as possible after report issuance and, except for the very unusual situations, within no later than **ten working days** of report issuance. (For policy guidance on how to handle audit-related documents received after report issuance, see explanation above and in Case 3 of the Enclosure.)

Field audit personnel should direct any questions they may have regarding this memorandum to the Chief of their Quality Assurance Division. Headquarters Quality Assurance Division (PQA) will address questions forwarded from the regions.

/s/ Henry J. Simpkins
/for/ Robert DiMucci
Assistant Director
Policy and Plans

Enclosure:

Case Examples for Completing Working Papers after Report Issuance

DISTRIBUTION: C

Case Examples Illustrating When It's Appropriate to Complete Working Papers after Report Issuance

Case No. 1: Clearing Supervisor's Final Review Comments

A. Situation. Ms. Joan Doe and Mr. Tom Kat were the supervisor and lead auditor, respectively, on an incurred cost audit assignment. The completion of the assignment had been delayed by events outside the audit team's control, and the ACO made it clear that he needed the audit report issued as soon as possible.

In performing her final review of the audit working paper package and draft report, Ms. Doe found the report and work performed to be fully compliant with DCAA audit policy. She also observed instances, however, where Mr. Kat did not sufficiently adhere to DCAA's policy on completing working papers. She found cases where he did not (1) initial and date his working papers; (2) adequately reference his work from the lead to the detailed working papers; or (3) explain his conclusions clearly enough on lead W/P F, even though she agreed with his conclusions after reviewing his detailed WPs. Ms. Doe appropriately recorded the inadequacies (for Mr. Kat to correct/clear) on W/P A-3. None of the inadequacies impacted or brought into question the sufficiency of the documented audit evidence that supported the auditor's conclusions and judgments on the incurred cost audit assignment.

After completing her final review (and with the appropriate delegation from her manager and authorization from DCAAR 5600.1), Ms. Doe signed the audit report for the administrative staff to issue and returned the assignment file back to Mr. Kat to correct/clear the working paper inadequacies when he returned from five days of previously scheduled annual leave.

B. Policy Analysis. Ms. Doe exercised good judgment when she decided not to wait for Mr. Kat to clear the supervisor's final review comments prior to issuing the audit report. Within the next work week after his return from leave, Mr. Kat should take the action necessary to correct/clear the reviewer's comments, update W/P A-3, and return the assignment file to Ms. Doe to verify/approve. In clearing the comments and approving the corrective actions taken, both Mr. Kat and Ms. Doe need to ensure that the updated working paper documentation reflects the actual/later date of the work performed and is adequately differentiated from the documentation completed at the time of report issuance. When the updated work is insignificant, as in this case, the differentiation can be simple (e.g., adding one or more explanatory notes to existing WPs identifying the work that was subsequently performed based on the Supervisor's comments and currently dating and initialing each add-on note).

Case No. 2: Non-critical Working Papers Not Fully Assembled and Referenced

A. Situation. Ms. Joan Doe and Mr. Tom Kat were the supervisor and lead auditor, respectively, on a price proposal audit for which the customer made it clear that he absolutely had to have the audit report by COB Wednesday, October 30th.

Case Examples Illustrating When It's Appropriate to Complete Working Papers after Report Issuance

By Friday October 25th, Mr. Kat had the audit completed except for the planned steps covering the contractor's proposed material costs, and he had started drafting the audit report with material costs classified as *unsupported*. On Monday, October 28th, the contractor provided the requested supporting data (much of it "hard copy"), and by close of business Tuesday, Mr. Kat had completed his testing and analysis of the data, updated his *Microsoft Excel* spreadsheet and compiled the results of his material cost review on W/P M-2. He summarily explained what he had done and wrote his final results on W/P M, and finished updating the summary working papers (W/P A) and draft audit report to reflect the latest results of his audit of proposed material costs. He was not able, however, to complete the final assembly of the contractor's supporting material data into the working paper package, as both he and Ms. Doe felt that he should scan a number of the "hard copy" documents into the official electronic working papers and then electronically record and reference his material cost work to the extent practical.

On Wednesday morning, Mr. Kat submitted the draft report and working papers (absent the final formal assembly of the material supporting data) to Ms. Doe for final review and approval and made himself available to respond to her questions. Ms. Doe performed the final review and signed-off on the summary and lead electronic working papers. She also commended Mr. Kat for his extra effort to satisfy DCAA's customer and the quality of his work, and asked him to exit by telephone with the contractor after lunch. While Mr. Kat did this, Ms. Doe inserted an explanation into the W/Ps A and M on what happened. Upon notice that the exit conference had been completed, she updated the report and gave it to the administrative staff for final processing. Ms. Doe then proofed and signed the report (as authorized by DCAAR 5600.1), and had the administrative staff e-mail it to the customer by COB Wednesday.

After exiting with the contractor, Mr. Kat began the electronic scanning and final electronic assembly of the detailed Section "M" working papers. He finished the work on Thursday (after being interrupted several times with higher priority requests), and on Friday, Ms. Doe reviewed the electronically completed Section "M" working papers and inserted a final explanation and second sign-off on what she had done. All of the final documentation on the working papers was accurately dated.

B. Policy Analysis. Mr. Kat and Ms. Doe exercised good judgment in completing their audit in quality manner and reporting the results to meet the customer's needs. Per CAM 10-304.8.c, classification of costs as *unsupported* is of little value to the contracting officer, and the auditor *should* vigorously pursue action to obtain the data. Meeting the due date, ensuring a thorough final review of the critical working papers and draft audit report, and completing the working papers in electronic form to the extent practical are also very much in consonance with Agency policy and objectives. While DCAA's objective is to complete/finalize all the working papers prior to report issuance – and in the great majority of cases, FAOs do this – it is not *always* prudent or practical to hold up report issuance for minor "W/P cleanup."

Case Examples Illustrating When It's Appropriate to Complete Working Papers after Report Issuance

Case No. 3: Completing/Issuing the Cumulative Allowable Cost Worksheet or Filing an ACO's Business Clearance Memorandum

A. Situation. DCAA's Metropolitan Field Audit Office, an *iRIMS* pilot site for FY 2002, initiated and completed a quality and timely audit (2000C10100009) of the ABC Company's indirect cost rate proposal for CFY 2000. The audit report was issued June 28, 2002, and the report and completed working papers were all:

- officially saved on July 3rd as a *read only* and *.exe* file on a single session CD placed into the hard copy W/P file,
- archived on July 3rd on a second single session CD placed in a locked storage cabinet, and
- sent on July 8th to the *iRIMS* filing bin.

The final indirect rates were negotiated by the ACO with the contractor over the period July through September, 2002. The ACO's business clearance memorandum on the rate negotiation was e-mailed to the FAO in November 2002.

In October 2002, the FAO auditors incorporated the final CFY 2000 rates into their cumulative allowable cost worksheet (CACWS), and issued a memorandum with the updated worksheet to the ACO. The memorandum, CACWS, and supporting working papers related to this effort were all prepared in a quality manner, and in accordance with the audit plan, organized into a separate *Microsoft Explorer* folder called *CACWS for 2000C10100009*. On October 30th, the FAO zipped the CACWS folder and filed it in the *iRIMS* assignment folder 2000C10100009, and simultaneously placed a separate single session CD with all the CACWS files into both the hard copy file and FAO archive file. The ACO's business clearance memorandum on the CFY 2000 rate settlement received in November 2002 was handled in the same manner as the CACWS files.

B. Policy Analysis. The Metropolitan FAO handled all of their working papers and filing related to the Assignment 2000C10100009 in accordance with DCAA policy. Related documents like the CACWS and business clearance memorandums/PNMs can and should be filed in most cases with the corresponding audit working papers, but for policy compliance purposes, they are not treated as part of the audit working papers. For *iRIMS* filing purposes, these documents should be filed in their *iRIMS* audit assignment folder (as the *iRIMS* database software is deployed throughout the Agency), but not added to the official APPS.exe working paper file. Consequently, the completion of the CACWS or similar document should not impact the saving of the official audit working papers as a *read only* and *.exe file* within the ten working day policy guideline.